

# Profit and Fee Policy -

## 3.3.P (04/01/03)

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[Last Update: \(04/01/03\) RShibata:kma - 3.3.P.0](#)

[Background - 3.3.P.1](#)

[Policy - 3.3.P.2](#)

[Guideline - 3.3.G](#)

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## Last Update: (04/01/03) RShibata:kma - 3.3.P.0

This policy has been revised to allow the SCR to use alternatives to use Weighted Guidelines analysis in the determination of fee.

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## Background - 3.3.P.1

It is the intent of SNL to remunerate Contractors for financial and other risks which they may assume, resources they use, and organization performance and management capabilities they employ. Profits or fees shall be negotiated for this purpose; however, when profit or fee is determined as a separate element of the contract price, the aim of negotiating should be to fit it to the acquisition, giving due weight to effort, risk, facilities investment, and special factors.

A profit/fee analysis technique, consistently applied, provides SCR with a systematic approach that will insure consideration of the relative value of the various profit factors in the establishment of a profit objective and a basis for documentation of this objective, including an explanation of any significant departure from it in reaching a final agreement. The SCR's analysis of various profit factors can be based on information available prior to negotiations. Such information is furnished in proposals, audit data, performance reports, preaward surveys,

etc.

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## Policy - 3.3.P.2

It is SNL policy to utilize profit and fee to encourage efficient and effective contract performance. Negotiations of very low profits or fees do not motivate the Contractor to perform efficiently and effectively. On the other hand, excessive profits or fees should not be paid since such practice results in excessive costs to SNL and the government and establishes a pattern of profit/fee that cannot be justified and sustained on future contracts of the same type. Consequently, profit or fee must be considered within the circumstances of the particular procurement.

SNL's profit/fee policy should:

- reward Contractors who undertake more difficult work requiring higher skills,
- allow Contractors the opportunity to earn profits or fees commensurate with the cost risk they are willing to assume,
- reward Contractors who have excellent performance records to encourage continuation of high performance,
- reward Contractors who provide their own facilities and financing, and
- reward Contractors who have established competence through research or development work undertaken at their own risk.

The SCR may use various methods to determine the appropriate amount of profit or fee. The SCR may compare similar types of procurements for like items or services or conduct a market analysis to determine that the profit is reasonable for the work to be performed and for the amount of risk assumed by the offeror.

One of the methods, which the SCR may utilize, is the weighted guidelines method which is a structured approach to establish a profit objective for negotiation of contracts where cost analysis is performed. Guidance is provided in Section 3.3.G. The method utilized must be thoroughly documented as to why the profit/fee objective is reasonable

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Send feedback on ideas and information on this page to the Process Expert, Randy Shibata.



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